

To: Joint Committee on Finance

From: Bob Lang, Director  
Legislative Fiscal Bureau

## ISSUE

### Debt Service Reestimate (DOT -- Transportation Finance)

[LFB Summary: Page 587, #5]

## CURRENT LAW

Base funding for debt service on transportation-related general obligation bonds is \$7,886,600 SEG. The "base" revenue reduction for debt service on transportation-related revenue bonds is \$70,414,800 (this has been reestimated at \$68,521,800 since the "base" was established).

## GOVERNOR

Increase the estimated revenue reduction for revenue bond debt service by \$4,747,900 in 1997-98 and \$10,737,800 in 1998-99. Estimate that gross vehicle registration revenues will be reduced by \$75,162,700 in 1997-98 and \$81,152,600 in 1998-99 in order to repay principal and interest on revenue bonds. The statutes require that debt service payments on transportation-related revenue bonds be deducted from vehicle registration revenues prior to their deposit in the transportation fund. Consequently, revenue bond debt service is shown as a reduction in revenues, not as an appropriation.

Decrease funding by \$972,100 SEG in 1997-98 and \$1,371,500 SEG in 1998-99 to reestimate the level of funding needed for payment of principal and interest on currently authorized transportation-related general obligation bonds at \$6,914,500 in 1997-98 and \$6,515,100 in 1998-99.

## MODIFICATION TO BASE

Increase the estimated revenue reduction for revenue bond debt service by \$3,664,500 in 1997-98 and \$10,171,900 in 1998-99. Estimate that gross vehicle registration revenues will be reduced by \$74,079,300 in 1997-98 and \$80,586,700 in 1998-99.

Decrease funding by \$972,100 SEG in 1997-98 and \$1,371,500 SEG in 1998-99 to reestimate the level of funding needed for payment of principal and interest on currently authorized transportation-related general obligation bonds at \$6,914,500 in 1997-98 and \$6,515,100 in 1998-99.

**Explanation:** The reestimates of debt service on revenue bonds are \$1,649,300 lower than the estimates submitted by the Governor. This has the effect of increasing the amount of revenues otherwise available for expenditure. The reduction is due primarily to interest income on registration fees held by the trustee, which were not included in the original estimate. Vehicle registration fees are deposited initially with a trustee because those revenues are pledged for the repayment of principal and interest on transportation revenue bonds. After the repayments are made, the remaining revenues are transferred to the transportation fund along with any interest thereon. Although the current estimates reflect a change to the bill, these figures were incorporated in the transportation fund condition statement shown in LFB Paper #810. Therefore, this modification does not represent a change to the fund balance shown in that paper.

MO# Modification

|           |                                  |   |   |
|-----------|----------------------------------|---|---|
| 2 BURKE   | <input checked="" type="radio"/> | N | A |
| DECKER    | <input checked="" type="radio"/> | N | A |
| GEORGE    | <input checked="" type="radio"/> | N | A |
| JAUCH     | <input checked="" type="radio"/> | N | A |
| WINEKE    | <input checked="" type="radio"/> | N | A |
| SHIBILSKI | <input checked="" type="radio"/> | N | A |
| COWLES    | <input checked="" type="radio"/> | N | A |
| PANZER    | <input checked="" type="radio"/> | N | A |
|           |                                  |   |   |
| JENSEN    | <input checked="" type="radio"/> | N | A |
| OURADA    | <input checked="" type="radio"/> | N | A |
| HARSDORF  | <input checked="" type="radio"/> | N | A |
| ALBERS    | <input checked="" type="radio"/> | N | A |
| GARD      | <input checked="" type="radio"/> | N | A |
| KAUFERT   | <input checked="" type="radio"/> | N | A |
| LINTON    | <input checked="" type="radio"/> | N | A |
| COGGS     | <input checked="" type="radio"/> | N | A |

in

| Modification                     | SEG            |
|----------------------------------|----------------|
| 1997-99 REVENUE (Change to Base) | - \$13,836,400 |
| [Change to Bill]                 | \$1,649,300]   |
| 1997-99 FUNDING (Change to Base) | - \$2,343,600  |
| [Change to Bill]                 | \$0]           |

AYE 10 NO 0 ABS 0

To: Joint Committee on Finance

From: Bob Lang, Director  
Legislative Fiscal Bureau

## ISSUE

### **Motor Vehicle Fuel and Alternate Fuel Tax (DOT -- Transportation Finance)**

## CURRENT LAW

The state's fuel tax is an excise tax levied at 23.8 cents per gallon on motor vehicle fuel (gasoline and diesel) and alternate fuels (compressed natural gas and liquid propane gas). In addition, a petroleum inspection fee of three cents per gallon is imposed on all petroleum products. Revenue from that fee is deposited in the petroleum inspection fund, rather than the transportation fund.

## GOVERNOR

No provision.

## DISCUSSION POINTS

1. The motor vehicle fuel tax is the largest revenue source for the transportation fund. Collections comprise about 66% of transportation fund revenues prior to the deduction for debt service on transportation revenue bonds and about 71% of fund revenues after the deduction.
2. The motor fuel tax rate changes annually based on an indexing formula. The formula has reduced the reliance on periodic statutory increases in the rate. Since its inception, the indexing formula has been the exclusive cause for motor fuel tax rate changes, with one exception. In 1987, Act 27 increased the rate by two cents per gallon, from 18 cents to 20 cents.

3. The motor fuel tax has a number of positive features. In general, it is not viewed negatively by taxpayers because the tax cost is equated with the benefits of an improved transportation system and because it is paid in small increments. Because the tax base is so large (approximately 3 billion gallons), significant amounts of revenue are realized from small rate increases. Also, the tax is imposed on all purchasers of fuel, whether or not they are residents of the state. Finally, it is an efficient tax to administer.

4. On the other hand, the current rate is high compared to other states. Wisconsin's excise tax of 23.8 cents per gallon is the eighth highest among the 50 states. When all taxes and fees applied to gasoline are included, Wisconsin's effective rate of 26.8 cents per gallon ranks sixth nationally. The attachment provides a complete ranking of the excise tax and total taxes and fees applied to gasoline by each state.

5. Wisconsin's effective tax rate is high compared to surrounding states, as shown in the following table. When local taxes are included, Illinois ranks higher than Wisconsin. Recently, the Minnesota Senate voted to increase fuel taxes by five cents per gallon over a two-year period, but the House of Representatives has not concurred. In Michigan, the Governor has proposed an increase of five cents per gallon, but neither house of the Legislature has voted on the proposal. The legislative floor period in Minnesota ended on May 19, and passage of the Michigan budget is scheduled by July 4.

**Comparison of State Gasoline Taxes in Surrounding States  
(Cents Per Gallon)**

| <u>State</u> | <u>Excise Tax</u> | <u>Other Taxes*</u> | <u>Effective Tax</u> |
|--------------|-------------------|---------------------|----------------------|
| Wisconsin    | 23.80             | 3.00                | 26.80                |
| Illinois     | 19.00             | 6.98                | 25.98                |
| Iowa         | 20.00             | 1.00                | 21.00                |
| Michigan     | 15.00             | 6.98                | 21.98                |
| Minnesota    | 20.00             | 2.00                | 22.00                |

\*The cents per gallon equivalent of sales taxes imposed in Illinois and Michigan were computed based on the January average price in each state.

6. A high rate relative to other states may result in a loss of sales in some border areas. To remain competitive in those areas, some Wisconsin retailers have reduced their profit margin. The Transportation Finance Study Committee, consisting of four legislators, three public members and the Secretary of DOT, was created by 1995 Act 113 to make recommendations regarding appropriate transportation funding sources and to examine the impact of state tax rate

differences in border areas. The Committee found that market forces seem to play a larger role in determining retail price differences than state fuel taxes in border regions. However, the Committee recommended a more thorough investigation of the border issue within the context of specific tax increase proposals.

7. Although no specific rate was endorsed, the Transportation Finance Study Committee examined the impact of one and two cent per gallon increases and recommended increasing the motor vehicle fuel tax rate by an unspecified amount.

8. A motor vehicle fuel tax rate increase could not become effective until after the budget becomes law. As a result, a full year's revenue increase would not be realized until the second year of the biennium. The following table reports estimated revenue generated at different rates of increase based on an effective date of September 1, 1997.

#### **Estimated Revenue Increases (In Millions)**

| <u>Rate Increase in<br/>Cents Per Gallon</u> | <u>1997-98</u> | <u>1998-99</u> | <u>Biennium</u> |
|--|----------------|----------------|-----------------|
| 1  | \$24.80        | \$30.60        | \$55.40         |
| 2  | 49.61          | 61.20          | 110.81          |
| 3  | 74.41          | 91.81          | 166.22          |
| 4  | 99.21          | 122.41         | 221.62          |

#### **ALTERNATIVES TO BASE**

1. Increase the motor fuel tax rate by one cent per gallon, effective September 1, 1997. Estimate increased transportation fund revenue at \$24,800,000 in 1997-98 and \$30,600,000 in 1998-99 to reflect this change.

| <u>Alternative 1</u>             | <u>SEG</u>    |
|----------------------------------|---------------|
| 1997-99 REVENUE (Change to Base) | \$55,400,000  |
| (Change to Bill                  | \$55,400,000] |

2. Increase the motor fuel tax rate by two cents per gallon, effective September 1, 1997. Estimate increased transportation fund revenue at \$49,610,000 in 1997-98 and \$61,200,000 in 1998-99 to reflect this change.

| <u>Alternative 2</u>             | <u>SEG</u>     |
|----------------------------------|----------------|
| 1997-99 REVENUE (Change to Base) | \$110,810,000  |
| [Change to Bill]                 | \$110,810,000] |

3. Increase the motor fuel tax rate by three cents per gallon, effective September 1, 1997. Estimate increased transportation fund revenue at \$74,410,000 in 1997-98 and \$91,810,000 in 1998-99 to reflect this change.

| <u>Alternative 3</u>             | <u>SEG</u>     |
|----------------------------------|----------------|
| 1997-99 REVENUE (Change to Base) | \$166,220,000  |
| [Change to Bill]                 | \$166,220,000] |

4. Increase the motor fuel tax rate by four cents per gallon, effective September 1, 1997. Estimate increased transportation fund revenue at \$99,210,000 in 1997-98 and \$122,410,000 in 1998-99 to reflect this change.

| <u>Alternative 4</u>             | <u>SEG</u>     |
|----------------------------------|----------------|
| 1997-99 REVENUE (Change to Base) | \$221,620,000  |
| [Change to Bill]                 | \$221,620,000] |

5. Take no action.

MO# \_\_\_\_\_

Prepared by: Rick Olin  
Attachment

|           |   |   |   |
|-----------|---|---|---|
| BURKE     | Y | N | A |
| DECKER    | Y | N | A |
| GEORGE    | Y | N | A |
| JAUCH     | Y | N | A |
| WINEKE    | Y | N | A |
| SHIBILSKI | Y | N | A |
| COWLES    | Y | N | A |
| PANZER    | Y | N | A |
|           |   |   |   |
| JENSEN    | Y | N | A |
| OURADA    | Y | N | A |
| HARSDORF  | Y | N | A |
| ALBERS    | Y | N | A |
| GARD      | Y | N | A |
| KAUFERT   | Y | N | A |
| LINTON    | Y | N | A |
| COGGS     | Y | N | A |

AYE \_\_\_\_ NO \_\_\_\_ ABS \_\_\_\_

# ATTACHMENT

## State Gasoline Tax Rankings as of April, 1997 (In Cents Per Gallon)

| <u>State</u>   | <u>Excise Tax</u> | <u>State</u>   | <u>All Taxes and Fees*</u> |
|----------------|-------------------|----------------|----------------------------|
| Connecticut    | 39.00             | Connecticut    | 39.00                      |
| Rhode Island   | 28.00             | Rhode Island   | 29.00                      |
| Montana        | 27.00             | West Virginia  | 28.16                      |
| Nebraska       | 25.50             | Montana        | 27.75                      |
| Idaho          | 25.00             | New York       | 27.21                      |
| Nevada         | 24.00             | Wisconsin      | 26.80                      |
| Oregon         | 24.00             | California     | 26.24                      |
| Wisconsin      | 23.80             | Nebraska       | 26.10                      |
| Maryland       | 23.50             | Idaho          | 26.00                      |
| Delaware       | 23.00             | Illinois       | 25.98                      |
| Washington     | 23.00             | Nevada         | 24.66                      |
| North Carolina | 22.60             | Oregon         | 24.13                      |
| Colorado       | 22.00             | Maryland       | 23.52                      |
| Ohio           | 22.00             | Delaware       | 23.00                      |
| Massachusetts  | 21.00             | Washington     | 23.00                      |
| West Virginia  | 20.35             | North Carolina | 22.85                      |
| Iowa           | 20.00             | Pennsylvania   | 22.35                      |
| Louisiana      | 20.00             | Colorado       | 22.00                      |
| Minnesota      | 20.00             | Minnesota      | 22.00                      |
| North Dakota   | 20.00             | Ohio           | 22.00                      |
| Tennessee      | 20.00             | Michigan       | 21.98                      |
| Texas          | 20.00             | Hawaii         | 21.78                      |
| Illinois       | 19.00             | Tennessee      | 21.40                      |
| Maine          | 19.00             | Iowa           | 21.00                      |
| Utah           | 19.00             | Massachusetts  | 21.00                      |
| Arkansas       | 18.50             | Louisiana      | 20.35                      |
| Arizona        | 18.00             | Maine          | 20.12                      |
| California     | 18.00             | North Dakota   | 20.03                      |
| Kansas         | 18.00             | Texas          | 20.00                      |
| Mississippi    | 18.00             | Utah           | 19.50                      |
| New Hampshire  | 18.00             | Indiana        | 19.29                      |
| South Dakota   | 18.00             | Arizona        | 19.00                      |
| Virginia       | 17.50             | South Dakota   | 19.00                      |
| Missouri       | 17.00             | New Mexico     | 18.88                      |
| New Mexico     | 17.00             | New Hampshire  | 18.80                      |
| Alabama        | 16.00             | Arkansas       | 18.70                      |
| Hawaii         | 16.00             | Mississippi    | 18.40                      |
| Oklahoma       | 16.00             | Alabama        | 18.00                      |
| South Carolina | 16.00             | Kansas         | 18.00                      |
| Indiana        | 15.00             | Virginia       | 17.70                      |
| Kentucky       | 15.00             | Missouri       | 17.35                      |
| Michigan       | 15.00             | Oklahoma       | 17.00                      |
| Vermont        | 15.00             | South Carolina | 16.75                      |
| Pennsylvania   | 12.00             | Kentucky       | 16.40                      |
| Florida        | 11.60             | Vermont        | 16.00                      |
| New Jersey     | 10.50             | Florida        | 12.80                      |
| Alaska         | 8.00              | Georgia        | 12.35                      |
| New York       | 8.00              | New Jersey     | 10.90                      |
| Wyoming        | 8.00              | Wyoming        | 9.00                       |
| Georgia        | 7.50              | Alaska         | 8.00                       |

\*For those states imposing a sales tax on gasoline, the cents per gallon equivalents were based on the January average price in each state.

To: Joint Committee on Finance

From: Bob Lang, Director  
Legislative Fiscal Bureau

## ISSUE

### Motor Vehicle Fuel Tax Indexing Formula (DOT -- Transportation Finance)

## CURRENT LAW

The motor vehicle fuel tax rate is adjusted annually to reflect inflation and changes in consumption, with the new tax rate going into effect on April 1 of each year. An inflation factor is calculated by dividing the inflation index from the previous year by the inflation index from two years prior. A fuel consumption factor is calculated by dividing the number of gallons of fuel sold from two years prior by the number of gallons of fuel sold in the prior year. The inflation factor is multiplied by the fuel consumption factor to produce a composite adjustment factor. That factor is multiplied by the existing fuel tax rate to produce a new rate. The indexing formula produced a 0.1 cent per gallon increase effective April 1, 1997, raising the motor fuel tax rate from 23.7 cents per gallon to 23.8 cents per gallon. The formula is projected to increase the tax rate to 24.0 cents per gallon on April 1, 1988, and 24.2 cents per gallon on April 1, 1999.

## GOVERNOR

No provision.

## DISCUSSION POINTS

1. The objective of indexing is to provide a stable, inflation-adjusted level of fuel tax revenue. The inflation factor is intended to adjust the tax rate to preserve the purchasing power of the tax revenue. Under a fixed tax rate, if fuel consumption remains constant, the purchasing power of fuel tax revenue declines due to inflation. By adjusting the tax rate to reflect inflation,



changes in revenue are more likely to approximate changes in highway construction costs. Incorporating an adjustment for changes in fuel consumption works to make fuel tax revenue less dependent on the level of consumption. Since the tax rate rises if consumption falls and falls if consumption rises, revenue from year to year is likely to become more stable.

2. The indexing formula was enacted in 1983 and first determined the tax rate that took effect on April 1, 1985. A history of the adjustments under the formula is attached at the end of this paper. At the time of the formula's adoption, fuel consumption had declined in each of the three preceding years. Between 1980 and 1984, the motor fuel tax rate was increased four times, rising from seven cents per gallon to sixteen cents per gallon. Prior to the 1980 increase, tax collections had declined from \$183.7 million in 1978-79 to \$172.7 million in 1979-80.

3. Since 1983, consumption levels have increased each year and, generally, the consumption factor has partially offset the inflation factor. However, in 1988 and 1993, the consumption factor exceeded the inflation factor, and tax rates declined in 1989 and 1994.

4. The increase in motor fuel consumption is largely attributable to economic growth. Economic growth also is reflected in increased vehicle miles traveled in Wisconsin. Since 1985, the increase in vehicle miles traveled (46%) has exceeded the increase in fuel consumption (30%), largely because of improved fuel efficiency. Increases in vehicle miles traveled can impact highway costs in two ways. First, additional travel can cause roadways to wear more quickly, increasing maintenance and rehabilitation costs. Second, highway congestion can increase, leading to pressure for improvements to address resultant safety and capacity issues.

5. Although the current indexing formula has stabilized the real level of fuel tax revenue, this revenue does not increase to reflect additional use of the state's highway system. Since indexing began in 1985, motor fuel tax revenue has increased by 89.6%, compared to inflation (as measured for the indexing formula) of 57.7%. If the two cent nonindexing increase in 1987 had not occurred, motor fuel tax revenue would have increased by 71.2%. Over the same period, vehicle miles traveled increased by 46.5%.

6. In 1984-85, the motor fuel tax produced revenues equal to 1.02 cents per mile traveled. By 1996-97, this had increased to 1.32 cents per mile. However, to produce the same real level of revenue per mile, the motor fuel tax would have to produce 1.61 cents per mile in 1996-97. This would require a tax rate of 29.1 cents per gallon, or 5.3 cents per gallon more than the current rate.

7. Including a third adjustment factor in the current indexing formula to adjust for changes in vehicle miles traveled would stabilize the real yield per mile from the motor fuel tax. For example, the April 1, 1997, indexing adjustment reflected inflation of 3% in 1996 and increased consumption of 2.6%, producing a rate adjustment factor of 0.4% and a 0.1 cent per gallon rate increase. Adding a factor for vehicle miles traveled, which increased by 2.5% in 1996, would have increased the rate adjustment factor to 2.9% and would have produced a 0.7 cents per gallon rate increase.

8. Adding an adjustment factor for changes in vehicle miles travelled would require an official estimate of this figure. Although DOT now produces these estimates, their use in a formula rate-setting mechanism may justify a reexamination of the Department's estimating methodology. Therefore, it may be desirable to have the estimating procedure specified in administrative rules.

9. The Transportation Finance Study Committee, consisting of four legislators, three public members and the Secretary of DOT, was created by 1995 Act 113 to make recommendations regarding appropriate transportation funding sources. The Committee recommended modifying the motor vehicle fuel tax indexing formula by removing the consumption factor. If the consumption factor had not been included in the indexing formula in 1983, the motor fuel tax rate would have been indexed to 26.4 cents per gallon by April 1, 1997, assuming that the two cents per gallon nonindexing increase in 1987 would not have occurred. Among the 50 states, a rate of 26.4 cents per gallon would rank as the fourth highest state excise tax rate.

10. Eliminating the consumption factor would increase estimated motor fuel tax collections by \$3.06 million in 1997-98 and \$16.12 million in 1998-99. Since the change would affect each annual indexing calculation in the future, this would have a more significant effect in future biennia. For example, although estimated tax collections would be \$19.18 million higher in 1997-99, they would be \$69.16 million higher in 1999-2001.

## ALTERNATIVES TO BASE

1. Modify the current motor fuel indexing formula by adding a third adjustment factor for changes in vehicle miles traveled in Wisconsin, as calculated by the Department of Transportation, between the two prior years, effective with the April 1, 1998, indexing calculation. Require DOT to promulgate administrative rules to establish the procedure for estimating vehicle miles traveled for this purpose. Estimate increased transportation fund revenue at \$3,060,000 in 1997-98 and \$15,350,000 in 1998-99 to reflect estimated tax rates of 24.4 cents per gallon on April 1, 1998, and 25.0 cents per gallon on April 1, 1999.

| <u>Alternative 1</u>             | <u>SEG</u>    |
|----------------------------------|---------------|
| 1997-99 REVENUE (Change to Base) | \$18,410,000  |
| [Change to Bill]                 | \$18,410,000] |

2. Modify the current motor fuel indexing formula by deleting the motor fuel consumption adjustment factor, effective with the April 1, 1998, indexing calculation. Estimate increased transportation fund revenue at \$3,060,000 in 1997-98 and \$16,120,000 in 1998-99 to reflect estimated tax rates of 24.4 cents per gallon on April 1, 1998, and 25.1 cents per gallon on April 1, 1999.

**Alternative 2****SEG****1997-99 REVENUE** (Change to Base)  
[Change to Bill]**\$19,180,000**  
**\$19,180,000]**

3. Take no action.

Prepared by: Rick Olin  
Attachment

MO# \_\_\_\_\_

|           |   |   |   |
|-----------|---|---|---|
| BURKE     | Y | N | A |
| DECKER    | Y | N | A |
| GEORGE    | Y | N | A |
| JAUCH     | Y | N | A |
| WINEKE    | Y | N | A |
| SHIBILSKI | Y | N | A |
| COWLES    | Y | N | A |
| PANZER    | Y | N | A |
|           |   |   |   |
| JENSEN    | Y | N | A |
| OURADA    | Y | N | A |
| HARSDORF  | Y | N | A |
| ALBERS    | Y | N | A |
| GARD      | Y | N | A |
| KAUFERT   | Y | N | A |
| LINTON    | Y | N | A |
| COGGS     | Y | N | A |

AYE \_\_\_\_ NO \_\_\_\_ ABS \_\_\_\_

## ATTACHMENT

### History of the Tax Rate Adjustment Factor and Changes in the Tax Rate

The following table reports the factors used in the indexing formula since its implementation in 1985. For each year, the factors determine the tax rate for the succeeding year. For example, the 1996 factors were used to determine the rate going into effect on April 1, 1997.

The indexing formula was modified in four of the thirteen years. The inflation factor was calculated from the Federal Highway Administration's maintenance and operations index prior to 1991, but has since been based on the consumer price index. In 1992, indexing was suspended for one year, and the 1991 factors were used with the 1992 factors to calculate the tax rate increase for 1993. The consumption rates for 1994 and 1995 were set statutorily because the point of tax collection was changed from the wholesaler to the supplier in 1994.

Over this period, the motor vehicle fuel tax rate increased from 16.0 cents per gallon (March 31, 1985) to 23.8 cents per gallon (April 1, 1997). In addition to the tax rate changes due to indexing, a statutory rate increase of two cents per gallon occurred in 1987.

### Calculation of Tax Rate Adjustment Factor and Change in Tax Rate

| <u>Year</u> | <u>Consumption<br/>Factor</u> | <u>Inflation<br/>Factor</u> | <u>Adjustment<br/>Factor</u> | <u>Tax Rate Change<br/>Cents Per Gallon</u> |
|-------------|-------------------------------|-----------------------------|------------------------------|---|
| 1984        | 0.986                         | 1.046                       | 1.031                        | 0.5   |
| 1985        | 0.998                         | 1.060                       | 1.058                        | 1.0   |
| 1986        | 0.978                         | 1.052                       | 1.029                        | 0.5   |
| 1987*       | 0.999                         | 1.046                       | 1.045                        | 0.9   |
| 1988        | 0.958                         | 1.039                       | 0.996                        | -0.1  |
| 1989        | 0.995                         | 1.039                       | 1.034                        | 0.7   |
| 1990        | 0.993                         | 1.042                       | 1.034                        | 0.7   |
| 1991**      | 0.998                         | 1.042                       | 1.040                        | 0.9   |
| 1992        | 0.976                         | 1.030                       | 1.005                        | 0.1   |
| 1993        | 0.967                         | 1.030                       | 0.996                        | -0.1  |
| 1994***     | 0.989                         | 1.026                       | 1.015                        | 0.3   |
| 1995***     | 0.985                         | 1.029                       | 1.014                        | 0.3   |
| 1996        | 0.975                         | 1.030                       | 1.004                        | 0.1   |

\* Does not include the two cent per gallon statutory rate increase.

\*\* Indexing adjustment delayed for one year.

\*\*\* Consumption factors set by statute due to change in point of tax collection.

To: Joint Committee on Finance

From: Bob Lang, Director  
Legislative Fiscal Bureau

## ISSUE

### Vehicle Registration Fee Increase -- Automobiles (DOT -- Transportation Finance)

## CURRENT LAW

The current automobile registration fee is \$40 annually. Besides the "regular" automobile plate, a \$40 fee is also charged for a variety of "special" license plates.

## GOVERNOR

No provision.

## DISCUSSION POINTS

1. Vehicle registration fees comprise the second largest revenue source for the transportation fund. Collections represent about 27% of transportation fund revenues prior to the deduction of debt service for transportation revenue bonds. After making that deduction, net fees comprise 21% of transportation fund revenues. Automobiles, trucks and mobile homes are subject to annual registration. Motorcycles and mopeds must be registered every two years.

2. Automobiles comprise approximately 45% of total registration fee revenues and are subject to a flat registration fee of \$40 annually. Of the 50 states, 26 impose a flat registration fee on automobiles. Wisconsin has the third highest rate among those states, behind Illinois (\$48) and Vermont (\$43). The following table reports the distribution of those states by fee level.



| <u>Range of Fees</u> | <u>Number of States</u> |
|----------------------|-------------------------|
| \$40 and Over        | 3                       |
| \$30 to \$39         | 5                       |
| \$20 to \$29         | 12                      |
| Under \$20           | 6                       |

3. Variable registration fee structures based on some measure of vehicle age, horsepower, value, weight or some combination of factors are employed in 24 states. Fees tend to be higher in states with variable fee structures and, based on a 1995 Federal Highway Administration report, fees for some vehicles exceed \$40 in 13 of the 24 states. Only three of the 24 states had a minimum fee above \$40.

4. A number of other states with fees lower than \$40 impose other taxes or fees that complement the registration fee. For example, California imposes an annual fee equal to 2% of the market value of each vehicle in addition to a \$29 registration fee. In Indiana, vehicles with gross weights of less than 11,000 pounds are subject to a local excise tax ranging from \$12 to \$1,063, in addition to the state's \$12.75 registration fee. In Kentucky, a personal property tax is imposed on vehicles in addition to the \$36 state registration fee. Washington imposes an annual excise tax equal to 2.2% of a vehicle's manufacturer's suggested retail price, less depreciation, in addition to a registration fee of \$23.75.

5. Wisconsin's \$40 registration fee is less than fees imposed in surrounding states. In a December, 1996, evaluation of transportation programs and revenues, the Legislative Audit Bureau included the following comparison of registration taxes and fees. For this table, the Audit Bureau used approximate values of \$12,500 for an economy car, \$20,000 for a mid-size car and \$40,000 for a luxury car.

**State Taxes and Fees on Selected Automobile Registrations  
June, 1996**

|             | <u>Minn.</u> | <u>Ind.</u> | <u>Iowa</u> | <u>Mich.</u> | <u>Ill.</u> | <u>Wis.</u> | <u>Ohio</u> |
|-------------|--------------|-------------|-------------|--------------|-------------|-------------|-------------|
| <b>1996</b> |              |             |             |              |             |             |             |
| Economy     | \$166        | \$163       | \$134       | \$62         | \$48        | \$40        | \$22        |
| Mid-size    | 268          | 263         | 217         | 108          | 48          | 40          | 22          |
| Luxury      | 547          | 545         | 445         | 220          | 48          | 40          | 22          |
| <b>1993</b> |              |             |             |              |             |             |             |
| Economy     | 134          | 111         | 120         | 46           | 48          | 40          | 22          |
| Mid-size    | 223          | 176         | 201         | 71           | 48          | 40          | 22          |
| Luxury      | 426          | 360         | 365         | 138          | 48          | 40          | 22          |
| <b>1990</b> |              |             |             |              |             |             |             |
| Economy     | 99           | 63          | 79          | 39           | 48          | 40          | 22          |
| Mid-size    | 166          | 91          | 135         | 64           | 48          | 40          | 22          |
| Luxury      | 308          | 143         | 252         | 120          | 48          | 40          | 22          |
| <b>1987</b> |              |             |             |              |             |             |             |
| Economy     | 35           | 25          | 17          | 39           | 48          | 40          | 22          |
| Mid-size    | 35           | 25          | 22          | 46           | 48          | 40          | 22          |
| Luxury      | 43           | 49          | 40          | 101          | 48          | 40          | 22          |

6. The Transportation Finance Study Committee, consisting of four legislators, three public members and the Secretary of DOT, was created by 1995 Act 113 to make recommendations regarding appropriate transportation funding sources. One recommendation of the Committee was to raise the vehicle registration fee by an unspecified amount. The Committee also included the possibility of indexing the registration fee to some measure of inflation.

7. Wisconsin's vehicle registration fee was last increased in 1991, when the fee was raised from \$25 to \$40. The \$15 change represented a 60% increase. If the \$40 fee had increased at the rate of inflation since 1991, the fee would equal \$47.50 in September, 1997, and would grow to \$50 by 1999.

8. A registration fee increase could be administered with relative ease. However, DOT may incur some additional costs related to data processing and inquiries from the general public. These costs would be one-time in nature. An indexed registration fee would create an ongoing administrative impact and would increase ongoing costs to administer the fee.



9. The Transportation Finance Study Committee's report identifies the potential impact on lower-income vehicle owners and the inability to collect automobile registration fees from nonresidents as two potential concerns about raising registration fees. The report mentioned possible public confusion and objections to annual fee increases as concerns about indexing registration fees.

10. Since registration fee revenues are pledged to make debt service payments on transportation revenue bonds, increases in these revenues enhance the state's capacity to use revenue bonds. In addition to providing annual revenue growth for other purposes, an indexed registration fee would reduce the need for more frequent statutory increases to support the state's current bonding policies.

11. A vehicle registration fee increase would not become effective until after the budget becomes law. As a result, a full year's revenue increase would not be realized until the second year of the biennium. When the fee was increased in 1991, it became effective on September 1. The following table reports the estimated revenue generated by different levels of increase, assuming a September 1, 1997, effective date.

**Estimated Revenue Increases  
(In Millions)**

| <u>Increase in Fees<br/>(Percent Change)</u> | <u>1997-98</u> | <u>1998-99</u> | <u>Biennium</u> |
|--|----------------|----------------|-----------------|
| \$5 (12.5%)                                  | \$12.02        | \$14.43        | \$26.45         |
| \$10 (25.0%)                                 | 24.05          | 28.86          | 52.91           |
| \$15 (37.5%)                                 | 36.08          | 43.29          | 79.37           |
| \$20 (50.0%)                                 | 48.10          | 57.72          | 105.82          |

12. The Department of Revenue currently certifies the change in the consumer price index each November 1 for the purpose of computing allowable budget increases under the expenditure restraint program. Using this certification for an indexed registration fee would allow DOT two months to implement a rate change each January 1, making the rate consistent throughout each calendar year.

13. Although an indexed registration fee could be implemented in this biennium, a delayed effective date may be appropriate if a statutory increase is adopted as part of this budget.

## ALTERNATIVES TO BASE

### A. Specific Fee Increase

1. Increase the automobile registration fee by \$5, effective September 1, 1997. Estimate increased transportation fund revenue at \$12,020,000 in 1997-98 and \$14,430,000 in 1998-99 to reflect this change.

| <u>Alternative 1</u>             | <u>SEG</u>    |
|----------------------------------|---------------|
| 1997-99 REVENUE (Change to Base) | \$26,450,000  |
| [Change to Bill]                 | \$26,450,000] |

2. Increase the automobile registration fee by \$10, effective September 1, 1997. Estimate increased transportation fund revenue at \$24,050,000 in 1997-98 and \$28,860,000 in 1998-99 to reflect this change.

| <u>Alternative 2</u>             | <u>SEG</u>    |
|----------------------------------|---------------|
| 1997-99 REVENUE (Change to Base) | \$52,910,000  |
| [Change to Bill]                 | \$52,910,000] |

3. Increase the automobile registration fee by \$15, effective September 1, 1997. Estimate increased transportation fund revenue at \$36,080,000 in 1997-98 and \$43,290,000 in 1998-99 to reflect this change.

| <u>Alternative 3</u>             | <u>SEG</u>    |
|----------------------------------|---------------|
| 1997-99 REVENUE (Change to Base) | \$79,370,000  |
| [Change to Bill]                 | \$79,370,000] |

4. Increase the automobile registration fee by \$20, effective September 1, 1997. Estimate increased transportation fund revenue at \$48,100,000 in 1997-98 and \$57,720,000 in 1998-99 to reflect this change.

| <u>Alternative 4</u>             | <u>SEG</u>     |
|----------------------------------|----------------|
| 1997-99 REVENUE (Change to Base) | \$105,820,000  |
| [Change to Bill]                 | \$105,820,000] |

5. Take no action.

## B. Indexed Fee Increase

1. Establish an indexed automobile registration fee, effective January 1, 1998. Specify that the fee would be adjusted to the nearest 50 cents by DOT based on the rate of change in the consumer price index, as certified by the Department of Revenue on November 1 of each year for the budget test under the expenditure restraint program. Estimate increased transportation fund revenue at \$1,443,000 in 1997-98 and \$4,329,000 in 1998-99 based on estimated registration fee increases of \$1 per year on January 1, 1998, and January 1, 1999.

| <u>Alternative 1</u>             | <u>SEG</u>   |
|----------------------------------|--------------|
| 1997-99 REVENUE (Change to Base) | \$5,772,000  |
| [Change to Bill                  | \$5,772,000] |

2. Establish an indexed automobile registration fee, effective January 1, 2000. Specify that the fee would be adjusted to the nearest 50 cents by DOT based on the rate of change in the consumer price index, as certified by the Department of Revenue on November 1 of each year for the budget test under the expenditure restraint program.

3. Take no action.

MO# \_\_\_\_\_

Prepared by: Rick Olin

|           |   |   |   |
|-----------|---|---|---|
| BURKE     | Y | N | A |
| DECKER    | Y | N | A |
| GEORGE    | Y | N | A |
| JAUCH     | Y | N | A |
| WINEKE    | Y | N | A |
| SHIBILSKI | Y | N | A |
| COWLES    | Y | N | A |
| PANZER    | Y | N | A |
|           |   |   |   |
| JENSEN    | Y | N | A |
| OURADA    | Y | N | A |
| HARSDORF  | Y | N | A |
| ALBERS    | Y | N | A |
| GARD      | Y | N | A |
| KAUFERT   | Y | N | A |
| LINTON    | Y | N | A |
| COGGS     | Y | N | A |

AYE \_\_\_\_ NO \_\_\_\_ ABS \_\_\_\_

To: Joint Committee on Finance

From: Bob Lang, Director  
Legislative Fiscal Bureau

## ISSUE

### **Value-Based Vehicle Registration Fee for Automobiles (DOT -- Transportation Finance)**

## CURRENT LAW

The current automobile registration fee is \$40 annually.

## GOVERNOR

No provision.

## DISCUSSION POINTS

1. Automobiles comprise approximately 45% of total registration fee revenues and are subject to a flat registration fee. Because the number of automobiles has remained fairly stable, registration fee revenues from automobiles have not kept pace with inflation. A fee system based on each vehicle's value could produce revenue increases because new vehicles typically have higher values than the vehicles they replace. Variable registration fee structures based on some measure of vehicle age, horsepower, value, weight or some combination of factors are employed in 23 states.

2. Fees tend to be higher in states with variable fee structures and, based on a 1995 Federal Highway Administration report, fees for some vehicles exceed \$40 in 13 of the 24 states with such systems. Three of the four surrounding states impose value-based registration fees. In Iowa, registration fees are based on vehicle weight, list price and age. In Michigan, the fees are calculated on the basis of the manufacturer's base list price plus a \$5 processing fee. In

Minnesota, the registration fees are based on each vehicle's age and manufacturer's suggested retail price plus destination charge.

3. The Legislative Audit Bureau's evaluation of transportation programs and revenues compared Wisconsin's registration fee to those in surrounding states. From the LAB report, the following table reports 1996 registration fees in Iowa, Michigan and Minnesota based on four model years and three vehicle types. For the table, the Audit Bureau used approximate values of \$12,500 for an economy car, \$20,000 for a mid-size car and \$40,000 for a luxury car.

#### 1996 State Fees on Selected Automobile Registrations

| <u>Year</u> | <u>Type</u> | <u>Iowa</u> | <u>Michigan</u> | <u>Minnesota</u> |
|-------------|-------------|-------------|-----------------|------------------|
| 1996        | Economy     | \$134       | \$62            | \$166            |
|             | Mid-size    | 217         | 108             | 268              |
|             | Luxury      | 445         | 220             | 547              |
| 1993        | Economy     | 120         | 46              | 134              |
|             | Mid-size    | 201         | 71              | 223              |
|             | Luxury      | 365         | 138             | 426              |
| 1990        | Economy     | 79          | 39              | 99               |
|             | Mid-size    | 135         | 64              | 166              |
|             | Luxury      | 252         | 120             | 308              |
| 1987        | Economy     | 17          | 39              | 35               |
|             | Mid-size    | 22          | 46              | 35               |
|             | Luxury      | 40          | 101             | 43               |

4. Three factors would influence the stability of the revenue base under a value-based structure: (a) the depreciation rate applied to used vehicles; (b) the price of new vehicles; and (c) the number of new vehicles sold. Revenue generated from fees on new vehicles must be sufficient to offset the revenue decreases from used vehicles as their value depreciates.

5. Supporters of a value-based fee structure argue that it is a more progressive fee than the current flat fee. However, some individuals without high incomes buy larger, more expensive vehicles because they need them. Another criticism of the value-based structure is that the value of a vehicle does not reflect the use of the highway system.

6. If there is a direct relationship between fee levels and vehicle values, the fee could be included as an itemized deduction against federal income taxes. This would reduce the net effect of higher fees for individuals who claim itemized deductions.

7. Implementing a value-based registration system would require decisions on the following items: (a) the transfer of existing license plates from one vehicle to another with a different value; (b) the determination of the base value; (c) the documentation of base values; (d) the calculation of the registration fee; (e) the depreciation of the registration fee; and (f) setting minimum and maximum registration fees.

8. A value-based structure would be more complex than the current flat fee structure, which would increase errors made in submitting registration forms. This would add to the cost of administering this type of fee structure.

9. DOT has indicated that the earliest effective date for implementing a value-based registration system would be 13 months after the budget bill becomes law, or approximately on September 1, 1998. DOT estimates one-time start-up costs of \$1,659,600 and on-going costs of \$537,400. Based on the projected start-up date, appropriations totaling \$1,521,300 in 1997-98 and \$630,900 in 1998-99 would be required. An additional 7.1 LTE and 11.7 FTE positions would be needed, beginning in 1997-98.

10. Fee schedules could be structured in many ways and the resulting revenue could vary considerably depending on the structure. Recently, DOT estimated revenues under two fee structures. Those structures are included as attachments to this paper. Fees would range from \$40 to \$100 under the first alternative and from \$55 to \$200 under the second alternative. Under both alternatives, fees would depreciate 10% per year until the fee equals half the original amount. As a result, fees would not change after a vehicle become five years old.

11. The amount of revenue generated by a value-based registration system depends on whether the system is retroactively applied to existing vehicles (full implementation) or applied only to new vehicles (phased implementation). Under the full implementation option, the \$40 to \$100 fee schedule would generate \$8.2 million more in the first full year (\$6.8 million for ten months), while the \$55 to \$200 schedule would generate \$77.8 million more in the first full year (\$64.8 million for ten months). Under the phased implementation option, these figures would drop to \$1.9 million (\$1.6 million for ten months) and \$44.1 million (\$36.8 million), respectively. The drop for the \$55 to \$200 option under phased implementation is proportionately smaller since this option is based on the assumption that \$55 would become the minimum fee at the time of implementation.

12. Although phased implementation would generate less revenue in the short-term, this may reduce the level of opposition to a change to a value-based registration system, since large fee increases would not be applied to existing vehicles. This would also build in incremental increases in transportation fund revenues during the next two biennia (\$2 million to \$3 million per year for the \$40 to \$100 option and \$9 million to \$12 million per year for the \$55 to \$200 option).

## ALTERNATIVES TO BASE

1. Establish a value-based registration system, with fees ranging from \$40 to \$100 (detail shown in Attachment 1), effective September 1, 1998. Apply this system to new vehicle registrations. Require DOT to promulgate administrative rules to implement the new system. Provide \$1,521,300 SEG in 1997-98 and \$630,900 SEG in 1998-99 and 11.7 SEG positions annually to fund the conversion to this system. Estimate additional transportation fund revenue at \$1,600,000 in 1998-99 to reflect this change.

| <u>Alternative 1</u>               | <u>SEG</u>   |
|------------------------------------|--------------|
| 1997-99 REVENUE (Change to Base)   | \$1,600,000  |
| [Change to Bill]                   | \$1,600,000] |
| 1997-99 FUNDING (Change to Base)   | \$2,152,200  |
| [Change to Bill]                   | \$2,152,200] |
| 1998-99 POSITIONS (Change to Base) | 11.70        |
| [Change to Bill]                   | 11.70]       |

2. Establish a value-based registration system, with fees ranging from \$40 to \$100 (detail shown in Attachment 1), effective September 1, 1998. Apply this system to both existing registrations and new vehicle registrations. Require DOT to promulgate administrative rules to implement the new system. Provide \$1,521,300 SEG in 1997-98 and \$630,900 SEG in 1998-99 and 11.7 SEG positions annually to fund the conversion to this system. Estimate additional transportation fund revenue at \$6,800,000 in 1998-99 to reflect this change.

| <u>Alternative 2</u>               | <u>SEG</u>   |
|------------------------------------|--------------|
| 1997-99 REVENUE (Change to Base)   | \$6,800,000  |
| [Change to Bill]                   | \$6,800,000] |
| 1997-99 FUNDING (Change to Base)   | \$2,152,200  |
| [Change to Bill]                   | \$2,152,200] |
| 1998-99 POSITIONS (Change to Base) | 11.70        |
| [Change to Bill]                   | 11.70]       |

3. Establish a value-based registration system, with fees ranging from \$55 to \$200 (detail shown in Attachment 2), effective September 1, 1998. Apply this system to new vehicle registrations, but establish a \$55 base fee for existing vehicles. Require DOT to promulgate administrative rules to implement the new system. Provide \$1,521,300 SEG in 1997-98 and \$630,900 SEG in 1998-99 and 11.7 SEG positions annually to fund the conversion to this system. Estimate additional transportation fund revenue at \$36,800,000 in 1998-99 to reflect this change.

| <u>Alternative 3</u>               | <u>SEG</u>    |
|------------------------------------|---------------|
| 1997-99 REVENUE (Change to Base)   | \$36,800,000  |
| [Change to Bill]                   | \$36,800,000] |
| 1997-99 FUNDING (Change to Base)   | \$2,152,200   |
| [Change to Bill]                   | \$2,152,200]  |
| 1998-99 POSITIONS (Change to Base) | 11.70         |
| [Change to Bill]                   | 11.70]        |

4. Establish a value-based registration system, with fees ranging from \$55 to \$200 (detail shown in Attachment 2), effective September 1, 1998. Apply this system to both existing registrations and new vehicle registrations. Require DOT to promulgate administrative rules to implement this new system. Provide \$1,521,300 SEG in 1997-98 and \$630,900 SEG in 1998-99 and 11.7 SEG positions annually to fund the conversion to this system. Estimate additional transportation fund revenue at \$64,800,000 in 1998-99 to reflect this change.

| <u>Alternative 4</u>               | <u>SEG</u>    |
|------------------------------------|---------------|
| 1997-99 REVENUE (Change to Base)   | \$64,800,000  |
| [Change to Bill]                   | \$64,800,000] |
| 1997-99 FUNDING (Change to Base)   | \$2,152,200   |
| [Change to Bill]                   | \$2,152,200]  |
| 1998-99 POSITIONS (Change to Base) | 11.70         |
| [Change to Bill]                   | 11.70]        |

5. Take no action.

MO# \_\_\_\_\_

Prepared by: Rick Olin  
Attachments

|           |   |   |   |
|-----------|---|---|---|
| BURKE     | Y | N | A |
| DECKER    | Y | N | A |
| GEORGE    | Y | N | A |
| JAUCH     | Y | N | A |
| WINEKE    | Y | N | A |
| SHIBILSKI | Y | N | A |
| COWLES    | Y | N | A |
| PANZER    | Y | N | A |
|           |   |   |   |
| JENSEN    | Y | N | A |
| OURADA    | Y | N | A |
| HARSDORF  | Y | N | A |
| ALBERS    | Y | N | A |
| GARD      | Y | N | A |
| KAUFERT   | Y | N | A |
| LINTON    | Y | N | A |
| COGGS     | Y | N | A |

AYE \_\_\_\_\_ NO \_\_\_\_\_ ABS \_\_\_\_\_



## ATTACHMENT 1

### Sample Schedule for Value-Based Registration Fee: \$40 - \$100 Fee Range

| Vehicle Value<br>Categories<br>(MSRP):* | Vehicle Model Year    |                  |                  |                  |                  |                   |
|---|-----------------------|------------------|------------------|------------------|------------------|-------------------|
|   | Year 1:<br>(100% fee) | Year 2:<br>(90%) | Year 3:<br>(80%) | Year 4:<br>(70%) | Year 5:<br>(60%) | Year 6+:<br>(50%) |
| \$0 - \$9,999                           | \$40                  | \$40             | \$40             | \$40             | \$40             | \$40              |
| \$10,000 - \$10,999                     | 43                    | 40               | 40               | 40               | 40               | 40                |
| \$11,000 - \$11,999                     | 45                    | 41               | 40               | 40               | 40               | 40                |
| \$12,000 - \$12,999                     | 48                    | 43               | 40               | 40               | 40               | 40                |
| \$13,000 - \$13,999                     | 50                    | 45               | 40               | 40               | 40               | 40                |
| \$14,000 - \$14,999                     | 53                    | 48               | 42               | 40               | 40               | 40                |
| \$15,000 - \$15,999                     | 55                    | 50               | 44               | 40               | 40               | 40                |
| \$16,000 - \$16,999                     | 58                    | 52               | 46               | 41               | 40               | 40                |
| \$17,000 - \$17,999                     | 60                    | 54               | 48               | 42               | 40               | 40                |
| \$18,000 - \$18,999                     | 63                    | 57               | 50               | 44               | 40               | 40                |
| \$19,000 - \$19,999                     | 65                    | 59               | 52               | 46               | 40               | 40                |
| \$20,000 - \$20,999                     | 68                    | 61               | 54               | 48               | 41               | 40                |
| \$21,000 - \$21,999**                   | 70                    | 63               | 56               | 49               | 42               | 40                |
| \$22,000 - \$22,999                     | 73                    | 66               | 58               | 51               | 44               | 40                |
| \$23,000 - \$23,999                     | 75                    | 68               | 60               | 53               | 45               | 40                |
| \$24,000 - \$24,999                     | 78                    | 70               | 62               | 55               | 47               | 40                |
| \$25,000 - \$25,999                     | 80                    | 72               | 64               | 56               | 48               | 40                |
| \$26,000 - \$26,999                     | 83                    | 75               | 66               | 58               | 50               | 42                |
| \$27,000 - \$27,999                     | 85                    | 77               | 68               | 60               | 51               | 43                |
| \$28,000 - \$28,999                     | 88                    | 79               | 70               | 62               | 53               | 44                |
| \$29,000 - \$29,999                     | 90                    | 81               | 72               | 63               | 54               | 45                |
| \$30,000 - \$30,999                     | 93                    | 84               | 74               | 65               | 56               | 47                |
| \$31,000 - \$31,999                     | 95                    | 86               | 76               | 67               | 57               | 48                |
| \$32,000 - \$32,999                     | 98                    | 88               | 78               | 69               | 59               | 49                |
| \$33,000 +                              | 100                   | 90               | 80               | 70               | 60               | 50                |

\*MSRP = Manufacturer's suggested retail price.

\*\*Vehicles with an MSRP of under \$22,000 would have a registration fee that decreases slightly differently than the standard 10% per year rate because the minimum fee would not fall below \$40 for any vehicle.

## ATTACHMENT 2

### Sample Schedule for Value-Based Registration Fee: \$55 - \$200 Fee Range

| Vehicle Value<br>Categories<br>(MSRP):* | Vehicle Model Year    |                  |                  |                  |                  |                   |
|---|-----------------------|------------------|------------------|------------------|------------------|-------------------|
|   | Year 1:<br>(100% fee) | Year 2:<br>(90%) | Year 3:<br>(80%) | Year 4:<br>(70%) | Year 5:<br>(60%) | Year 6+:<br>(50%) |
| \$0 - \$5,999                           | \$55                  | 55               | 55               | 55               | 55               | 55                |
| \$6,000 - \$6,999                       | 55                    | 55               | 55               | 55               | 55               | 55                |
| \$7,000 - \$7,999                       | 55                    | 55               | 55               | 55               | 55               | 55                |
| \$9,000 - \$8,999                       | 55                    | 55               | 55               | 55               | 55               | 55                |
| \$9,000 - \$9,999                       | 55                    | 55               | 55               | 55               | 55               | 55                |
|   |                       |                  |                  |                  |                  |                   |
| \$10,000 - \$10,999                     | 61                    | 55               | 55               | 55               | 55               | 55                |
| \$11,000 - \$11,999                     | 67                    | 60               | 55               | 55               | 55               | 55                |
| \$12,000 - \$12,999                     | 73                    | 66               | 59               | 55               | 55               | 55                |
| \$13,000 - \$13,999                     | 79                    | 71               | 63               | 55               | 55               | 55                |
| \$14,000 - \$14,999                     | 85                    | 77               | 68               | 60               | 55               | 55                |
|   |                       |                  |                  |                  |                  |                   |
| \$15,000 - \$15,999                     | 91                    | 82               | 73               | 64               | 55               | 55                |
| \$16,000 - \$16,999                     | 97                    | 88               | 78               | 68               | 58               | 55                |
| \$17,000 - \$17,999                     | 103                   | 93               | 83               | 72               | 62               | 55                |
| \$18,000 - \$18,999                     | 109                   | 98               | 88               | 77               | 66               | 55                |
| \$19,000 - \$19,999                     | 115                   | 104              | 92               | 81               | 69               | 58                |
|   |                       |                  |                  |                  |                  |                   |
| \$20,000 - \$20,999                     | 121                   | 109              | 97               | 85               | 73               | 61                |
| \$21,000 - \$21,999                     | 128                   | 115              | 102              | 89               | 77               | 64                |
| \$22,000 - \$22,999                     | 134                   | 120              | 107              | 93               | 80               | 67                |
| \$23,000 - \$23,999                     | 140                   | 126              | 112              | 98               | 84               | 70                |
| \$24,000 - \$24,999                     | 146                   | 131              | 117              | 102              | 87               | 73                |
|   |                       |                  |                  |                  |                  |                   |
| \$25,000 - \$25,999                     | 152                   | 137              | 121              | 106              | 91               | 76                |
| \$26,000 - \$26,999                     | 158                   | 142              | 126              | 110              | 95               | 79                |
| \$27,000 - \$27,999                     | 164                   | 147              | 131              | 115              | 98               | 82                |
| \$28,000 - \$28,999                     | 170                   | 153              | 136              | 119              | 102              | 85                |
| \$29,000 - \$29,999                     | 176                   | 158              | 141              | 123              | 106              | 88                |
|   |                       |                  |                  |                  |                  |                   |
| \$30,000 - \$30,999                     | 182                   | 164              | 146              | 127              | 109              | 91                |
| \$31,000 - \$31,999                     | 188                   | 169              | 150              | 132              | 113              | 94                |
| \$32,000 - \$32,999                     | 194                   | 175              | 155              | 136              | 116              | 97                |
| \$33,000 - \$33,999                     | 200                   | 180              | 160              | 140              | 120              | 100               |
| \$34,000 - \$34,999                     | 200                   | 180              | 160              | 140              | 120              | 100               |
|   |                       |                  |                  |                  |                  |                   |
| \$35,000 - \$35,999                     | 200                   | 180              | 160              | 140              | 120              | 100               |
| \$36,000 +                              | 200                   | 180              | 160              | 140              | 120              | 100               |

\*MSRP = Manufacturer's suggested retail price.

To: Joint Committee on Finance

From: Bob Lang, Director  
Legislative Fiscal Bureau

## ISSUE

### Vehicle Registration Fee Increase -- Trucks (DOT -- Transportation Finance)

## CURRENT LAW

Vehicle registration fees for buses, trucks, truck tractors, trailers and motor homes are based on gross vehicle weight. Generally, the fee schedule ranges from \$45 for vehicles weighing 4,500 pounds or less to \$1,832 for vehicles weighing 80,000 pounds. An \$18 surcharge is added to the weight-based fee for each truck tractor. Trucks hauling dairy and forest products and farm trucks are subject to lower fee schedules. Fees on motor homes range from \$45 to \$111.

## GOVERNOR

No provision.

## DISCUSSION POINTS

1. Vehicle registration fees comprise the second largest revenue source for the transportation fund. Collections represent about 27% of transportation fund revenues prior to the deduction of debt service for transportation revenue bonds. After making that deduction, net fees comprise 21% of transportation fund revenues. Vehicles registered on the basis of their gross weight pay approximately 55% of total registration fee revenues.

2. All states impose registration fees on trucks that are based on vehicle weight. Wisconsin's truck registration fees are among the highest in the country. The Legislative Audit Bureau's evaluation of transportation programs and revenues cited a Federal Highway

Administration estimate that Wisconsin's registration fee on a two-year old, 80,000 pound truck is the nation's fourth highest.

3. Fees in other Midwestern states also are high, and fees in Illinois are higher than in Wisconsin. The Audit Bureau compared Wisconsin fees at a variety of weights to fees in six surrounding states. The fees reported for Indiana do not include amounts imposed as a wheel tax, which ranges from \$5 to \$40, on vehicles weighing over 11,000 pounds.

#### **Truck Registration Fees in Seven Midwestern States**

| <u>Weight</u> | <u>Wisconsin</u> | <u>Illinois</u> | <u>Indiana</u> | <u>Iowa</u> | <u>Michigan</u> | <u>Minnesota</u> | <u>Ohio</u> |
|---------------|------------------|-----------------|----------------|-------------|-----------------|------------------|-------------|
| 20,000 lbs    | \$255            | \$400           | \$171          | \$235       | \$378           | \$190            | \$152       |
| 30,000 lbs    | 436              | 682             | 391            | 445         | 499             | 360              | 357         |
| 40,000 lbs    | 659              | 970             | 546            | 675         | 672             | 595              | 542         |
| 50,000 lbs    | 761              | 1,238           | 716            | 965         | 873             | 715              | 662         |
| 60,000 lbs    | 978              | 1,584           | 801            | 1,200       | 975             | 1,015            | 857         |
| 70,000 lbs    | 1,256            | 1,812           | 976            | 1,465       | 1,176           | 1,325            | 997         |
| 80,000 lbs    | 1,832            | 2,210           | 1,351          | 1,695       | 1,277           | 1,760            | 1,342       |

4. The Transportation Finance Study Committee, consisting of four legislators, three public members and the Secretary of DOT, was created by 1995 Act 113 to make recommendations regarding appropriate transportation funding sources. The Committee included a recommendation that truck registration fees be increased. One of the factors cited by the Committee was that heavy vehicles cause more damage to the state's roadways than lighter vehicles.

5. If the registration fee on automobiles is increased, owners of some light trucks and sport utility vehicles could avoid the fee increase by registering their vehicles as trucks. A fee increase on trucks could limit or eliminate the potential revenue loss from this possibility.

6. Registration fees on commercial trucks that cross state lines are administered under the international registration plan (IRP). Under IRP, each truck operator pays a registration fee through the state where the vehicle is registered to all states where the truck has traveled based on mileage and weight. This system eliminates the advantage of registering in states with lower fees. However, some registration fee losses could occur near the Michigan and Minnesota borders because Wisconsin has reciprocal agreements with those states allowing intrastate carriers to operate in the other states within 30 miles of the border without paying fees to those states.

7. Registration fees based on gross weight were last increased in 1991, when they were raised by 9%. Since then, the consumer price index has increased by 18%. The following table reports the fee schedule under current law and under five percentage increases.

**Alternative Weight-Based Registration Fee Schedules**  
**Rounded to \$0.50**

| <u>Weight (lbs)</u><br><u>not exceeding</u> | <u>Current Law</u> | <u>5.00%</u> | <u>7.50%</u> | <u>10.00%</u> | <u>12.50%</u> | <u>15.00%</u> |
|---|--------------------|--------------|--------------|---------------|---------------|---------------|
| 4,500                                       | \$45.00            | \$47.00      | \$48.50      | \$49.50       | \$50.50       | \$51.50       |
| 6,000                                       | 57.00              | 60.00        | 61.50        | 62.50         | 64.00         | 65.50         |
| 8,000                                       | 72.00              | 75.50        | 77.50        | 79.00         | 81.00         | 83.00         |
| 10,000                                      | 111.00             | 116.50       | 119.50       | 122.00        | 125.00        | 127.50        |
| 12,000                                      | 150.00             | 157.50       | 161.00       | 165.00        | 168.50        | 172.50        |
| 16,000                                      | 203.00             | 213.00       | 218.00       | 223.50        | 228.50        | 233.50        |
| 20,000                                      | 255.00             | 267.50       | 274.00       | 280.50        | 287.00        | 293.00        |
| 26,000                                      | 340.00             | 357.00       | 365.50       | 374.00        | 382.50        | 391.00        |
| 32,000                                      | 436.00             | 458.00       | 468.50       | 479.50        | 490.50        | 501.50        |
| 38,000                                      | 552.00             | 579.50       | 593.50       | 607.00        | 621.00        | 635.00        |
| 44,000                                      | 659.00             | 692.00       | 708.50       | 725.00        | 741.50        | 758.00        |
| 50,000                                      | 761.00             | 799.00       | 818.00       | 837.00        | 856.00        | 875.00        |
| 54,000                                      | 812.00             | 852.50       | 873.00       | 893.00        | 913.50        | 934.00        |
| 56,000                                      | 865.00             | 908.00       | 930.00       | 951.50        | 973.00        | 994.50        |
| 62,000                                      | 978.00             | 1,027.00     | 1,051.50     | 1,076.00      | 1,100.00      | 1,124.50      |
| 68,000                                      | 1,104.00           | 1,159.00     | 1,187.00     | 1,214.50      | 1,242.00      | 1,269.50      |
| 73,000                                      | 1,256.00           | 1,319.00     | 1,350.00     | 1,381.50      | 1,413.00      | 1,444.50      |
| 76,000                                      | 1,489.00           | 1,563.50     | 1,600.50     | 1,638.00      | 1,675.00      | 1,712.50      |
| 80,000                                      | 1,832.00           | 1,923.50     | 1,969.50     | 2,015.00      | 2,061.00      | 2,107.00      |

8. A vehicle registration fee increase would not become effective until after the budget becomes law. As a result, a full year's revenue increase would not be realized until the second year of the biennium. When the fee was increased in 1991, increases became effective on September 1. The following table reports the estimated revenue generated under the fee schedules presented above, and assumes identical percentage increases in the fee schedules for motor homes, trucks hauling dairy and forest products and farm trucks.

**Estimated Revenue Increases  
(In Millions)**

| <u>Percentage<br/>Increase</u> | <u>1997-98</u> | <u>1998-99</u> | <u>Biennium</u> |
|--------------------------------|----------------|----------------|-----------------|
| 5.0%                           | \$6.13         | \$7.54         | \$13.67         |
| 7.5                            | 9.39           | 11.56          | 20.95           |
| 10.0                           | 12.26          | 15.08          | 27.34           |
| 12.5                           | 15.35          | 18.88          | 34.23           |
| 15.0                           | 18.49          | 22.75          | 41.24           |

**ALTERNATIVES TO BASE**

1. Increase registration fees for vehicles registered based on their gross vehicle weight (buses, trucks, truck tractors, trailers, motor homes, trucks hauling dairy and forest products and farm trucks) by 5%, effective September 1, 1997. Estimated increased transportation fund revenue at \$6,130,000 in 1997-98 and \$7,540,000 in 1998-99 to reflect this change.

| <u>Alternative 1</u>             | <u>SEG</u>    |
|----------------------------------|---------------|
| 1997-99 REVENUE (Change to Base) | \$13,670,000  |
| [Change to Bill]                 | \$13,670,000] |

2. Increase registration fees for vehicles registered based on their gross vehicle weight (buses, trucks, truck tractors, trailers, motor homes, trucks hauling dairy and forest products and farm trucks) by 7.5%, effective September 1, 1997. Estimated increased transportation fund revenue at \$9,390,000 in 1997-98 and \$11,560,000 in 1998-99 to reflect this change.

| <u>Alternative 2</u>             | <u>SEG</u>    |
|----------------------------------|---------------|
| 1997-99 REVENUE (Change to Base) | \$20,950,000  |
| [Change to Bill]                 | \$20,950,000] |

3. Increase registration fees for vehicles registered based on their gross vehicle weight (buses, trucks, truck tractors, trailers, motor homes, trucks hauling dairy and forest products and farm trucks) by 10%, effective September 1, 1997. Estimated increased transportation fund revenue at \$12,260,000 in 1997-98 and \$15,080,000 in 1998-99 to reflect this change.

| <u>Alternative 3</u>             | <u>SEG</u>    |
|----------------------------------|---------------|
| 1997-99 REVENUE (Change to Base) | \$27,340,000  |
| [Change to Bill]                 | \$27,340,000] |

4. Increase registration fees for vehicles registered based on their gross vehicle weight (buses, trucks, truck tractors, trailers, motor homes, trucks hauling dairy and forest products and farm trucks) by 12.5%, effective September 1, 1997. Estimated increased transportation fund revenue at \$15,350,000 in 1997-98 and \$18,880,000 in 1998-99 to reflect this change.

| <u>Alternative 4</u>             | <u>SEG</u>    |
|----------------------------------|---------------|
| 1997-99 REVENUE (Change to Base) | \$34,230,000  |
| [Change to Bill]                 | \$34,230,000] |

5. Increase registration fees for vehicles registered based on their gross vehicle weight (buses, trucks, truck tractors, trailers, motor homes, trucks hauling dairy and forest products and farm trucks) by 15%, effective September 1, 1997. Estimated increased transportation fund revenue at \$18,490,000 in 1997-98 and \$22,750,000 in 1998-99 to reflect this change.

| <u>Alternative 5</u>             | <u>SEG</u>    |
|----------------------------------|---------------|
| 1997-99 REVENUE (Change to Base) | \$41,240,000  |
| [Change to Bill]                 | \$41,240,000] |

Prepared by: Rick Olin

MO# \_\_\_\_\_

|           |   |   |   |
|-----------|---|---|---|
| BURKE     | Y | N | A |
| DECKER    | Y | N | A |
| GEORGE    | Y | N | A |
| JAUCH     | Y | N | A |
| WINEKE    | Y | N | A |
| SHIBILSKI | Y | N | A |
| COWLES    | Y | N | A |
| PANZER    | Y | N | A |

|          |   |   |   |
|----------|---|---|---|
| JENSEN   | Y | N | A |
| OURADA   | Y | N | A |
| HARSDORF | Y | N | A |
| ALBERS   | Y | N | A |
| GARD     | Y | N | A |
| KAUFERT  | Y | N | A |
| LINTON   | Y | N | A |
| COGGS    | Y | N | A |

AYE \_\_\_\_\_ NO \_\_\_\_\_ ABS \_\_\_\_\_